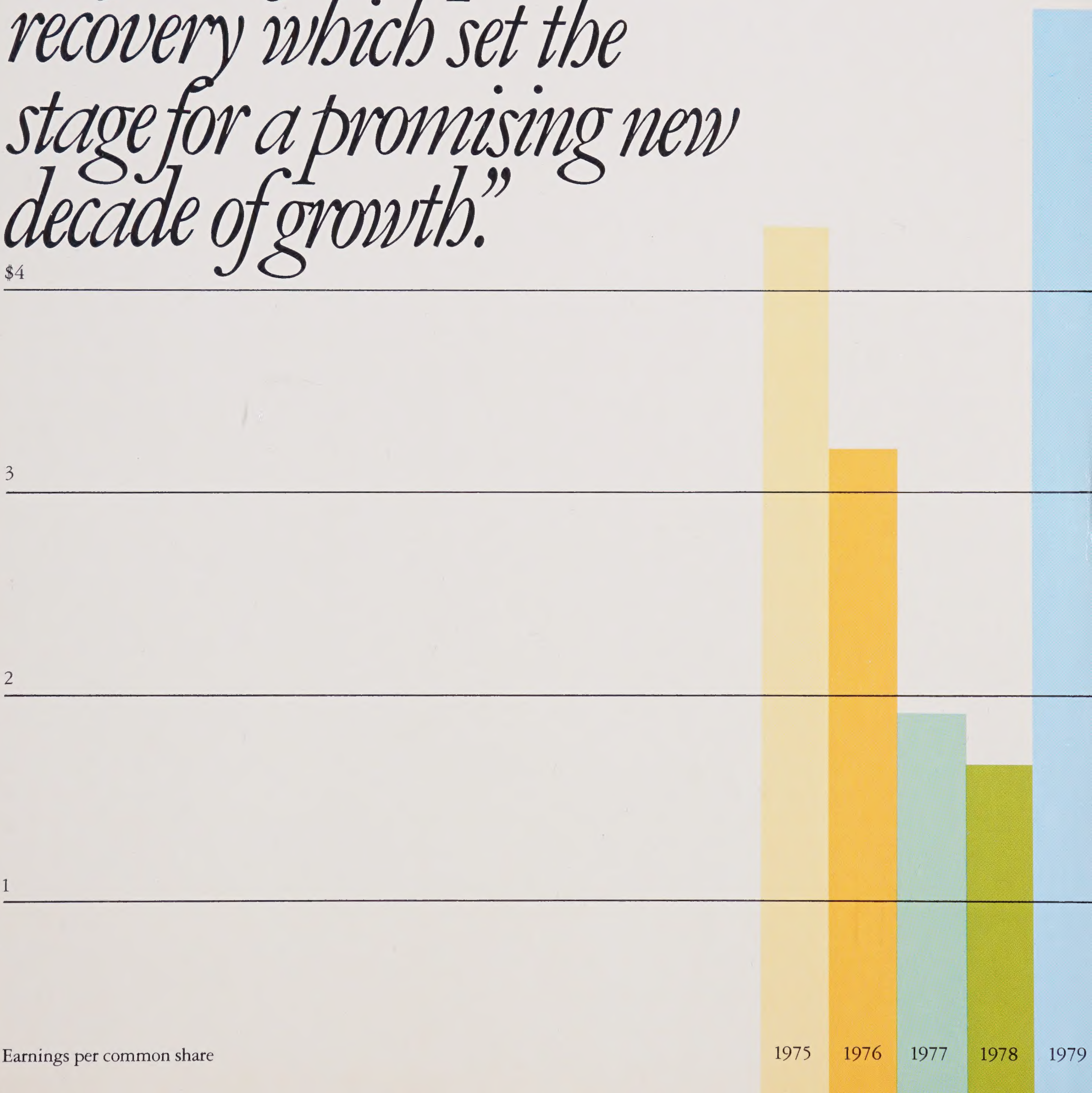
Union Carbide Canada Limited
1979 Annual Report

"...a year of abrupt recovery which set the stage for a promising new decade of growth."



Earnings per common share

Directors

Douglas F. S. Coate
Secretary and General Counsel
Union Carbide Canada Limited
Toronto

†*Jacques de Billy
Senior Partner, Messrs. Gagnon, de Billy, Cantin, Dionne, Martin, Beaudoin & Lesage
Quebec City

*John S. Dewar
President
Union Carbide Canada Limited
Toronto

†*Alec Flamm
Senior Vice-President
Union Carbide Corporation
New York

Alexander I. Hainey
Vice-President
Union Carbide Canada Limited
Toronto

†*Richard J. Hughes
Senior Vice-President
Union Carbide Corporation
New York

W. Norman Kissick
Vice-President
Union Carbide Canada Limited
Toronto

†*Ian D. Sinclair
Chairman of the Board
Canadian Pacific Limited
Montreal

†*Elio E. Tarika
Senior Vice-President
Union Carbide Corporation
New York

†*James C. Thackray
President
Bell Canada
Montreal

†*Richard M. Thomson
Chairman
The Toronto-Dominion Bank
Toronto

**Audit Committee*
†Compensation Committee

Executive Officers

John S. Dewar
President

Ralph C. Addison
Vice-President

Vernon V. Garlick
Vice-President and Treasurer

Alexander I. Hainey
Vice-President

W. Norman Kissick
Vice-President

Robert H. Rastorp
Vice-President

Douglas F. S. Coate
Secretary and General Counsel

George A. Kelly
Controller

About Union Carbide Canada

Union Carbide Canada Limited is a uniquely diversified manufacturing company with component businesses in chemicals, plastics, gases, metals and carbon. It markets several well-known consumer products, including EVEREADY batteries, GLAD plastic household wrap and bags and PRESTONE II anti-freeze and coolant. The Company is 25 per cent Canadian owned, its common shares being held by more than 4,000 shareholders. The remaining 75 per cent equity is owned by Union Carbide Corporation, of New York. Approximately 4,800 people are employed in Union Carbide plants and sales offices across Canada.

The Annual Meeting of Shareholders will be held at 11.00 a.m. on Wednesday, April 30, 1980, at the Royal York Hotel, Toronto.

Sur demande, il nous fera plaisir de vous envoyer l'édition française de ce rapport.

Operating and Functional Management

Robert J. Brema
General Manager, Home and Automotive Products

Richard C. Kugelman
General Manager, Battery Products

Robert J. Kulperger
General Manager, Gas Products

E. J. Peter Matzen
General Manager, Polyolefins

F. Gordon Murphy
General Manager, Carbon Products

Thomas R. Pezzack
General Manager, Casings and Films

George W. T. Richardson
General Manager, Metals

Robert C. Wilkes
General Manager, Chemicals

David R. Barclay
Director, Distribution

J. P. Gracie, M.D.
Director, Health and Environmental Affairs

George T. Harrap
Director, Safety and Loss Prevention

André G. Lapalme
Director, Feedstocks and Energy Supply

Stewart N. Playford
Director, Purchasing and Materials Services

Robert A. Seath
Director, Public Relations

John A. Steinmiller
Director, Executive Staff

Charles W. van Winsen
Director, Human Resources

President's Letter

For Union Carbide Canada Limited, 1979 was a year of abrupt recovery which set the stage for a promising new decade of growth. We achieved a level of profitability that has eluded us since the mid-1970's when the supply of petrochemicals entered a period of prolonged world surplus while the Company was embarked on its largest-ever expansion undertaking.

The encouraging financial performance, therefore, represented a sharp, one-year recovery from the price and profit trough in which some of our key business areas have been trapped for the last three years. Although serious world uncertainties and dislocations persist, a more encouraging phase of growth appears to be emerging.

Union Carbide's 1979 sales gained 30 per cent to $685.9 million. Plastics and Chemicals paced the improvement but significant contributions were made by the Gases, Metals and Carbon and Consumer and Related businesses.

The sales growth stemmed principally from higher prices, although physical volume gained as well. The renewed worldwide demand for petrochemicals contributed to a 36 per cent increase in export sales which reached $76.2 million.

Net income rose to a record $57.8 million, or $5.35 per common share, from $20.1 million, or $1.67 per common share, earned in 1978. Return on invested capital, which had declined since 1974 to a level of less than four per cent in 1978, improved to almost eleven per cent. This is approaching the degree of profitability required by Union Carbide on a continuing basis for its capital intensive operations serving growing but cyclical markets.

In keeping with our policy of increasing dividends as they can be sustained, the quarterly common share dividend was raised in October from 22.5 to 25 cents. The new rate is the equivalent of $1 per share on an annual basis.

During the 1975 to 1978 period, the Company more than doubled its assets in an aggressive capital expansion program that has established a solid foundation for longer-term income growth. In 1979, capital spending amounted to $30.1 million, down from $46.3 million a year earlier, bringing assets to $745.3 million.

Construction expenditures will increase in 1980 with the major projects being the initial phase of a $40 million program to increase the capacity of the Moore Township, Ontario, polyethylene plant and a $9 million expansion of graphite electrode production facilities at Welland, Ontario.

Continued sales improvement is anticipated in the coming year. All businesses are expected to contribute to higher revenues with the gains being based more on volume than price. As it enters the 1980's, the Company is optimistic that it has the potential to achieve a marked improvement in its financial performance.

Several unknown factors shade the outlook, including the pricing and availability of hydrocarbon-based feedstock supplies. These uncertainties can have a sudden adverse impact on strategic industries such as petrochemicals which upgrade natural resources into vital, value-added products for domestic and export markets.

Union Carbide has suggested several methods whereby the five per cent of Canada's oil and gas production upgraded into petrochemicals could be priced differently from the remainder which is burned away in fuel and energy applications. These mechanisms would offset many Canadian disadvantages, including higher construction costs and a smaller domestic market, and return to the economy substantial benefits in real economic growth, more favourable trade balances and the creation of new employment in a wide range of labour-intensive, user industries.

Early in January, a tragic explosion occurred at the Beauharnois, Quebec, metals facility which took the lives of five employees. At a subsequent coroner's inquest, the explosion was ruled to be accidental. The Company has long been a leader in safety performance and in the development of industrial safety programs. The Beauharnois tragedy served to reinforce that safety must continue to be an hour-by-hour, day-by-day responsibility. The safety performance at all other locations represented a significant improvement over 1978.

Richard J. Hughes, Senior Vice-President of Union Carbide Corporation, was appointed to the Board of Directors during the year and Vernon V. Garlick, Treasurer since 1976, became a Vice-President.

On behalf of the Directors, I would like to extend special thanks to all of Union Carbide's employees for their efforts and enthusiasm. The achievements of 1979 very much reflect the quality of their contribution.

J. D. Dewar

Financial Highlights

The substantial earnings improvement and reduced construction program in 1979 enabled Union Carbide to decrease its outstanding debt and improve its cash position. A $7 million loan from an affiliate outstanding at the end of 1978 was paid off in the first quarter.

Long-term debt, including current maturities, was reduced by $2.1 million as further 8⅜ per cent and 9¾ per cent debentures were redeemed to meet the Company's sinking fund obligations. At year-end, per cent debt to capitalization was 30.5, compared with 34.3 a year earlier.

Receivables and inventories increased 23 per cent as a result of the higher sales. While year-end inventory value was up from a year earlier due to higher costs, volume was down, reflecting strong sales demand as 1979 came to a close. Cash and securities increased 2.7 times to $40.2 million and the current ratio (total current assets: total current liabilities) increased to 2.9:1 at year-end 1979 from the previous year's 2.2:1.

The Company's investment in Petrosar Limited, in which it has a 20 per cent equity interest, increased by $2.2 million to support that company's commitments to its bankers. The comparable 1978 increase was $7 million. As the year progressed, Petrosar's operations improved and it has become a reliable, cost-competitive supplier of ethylene to Union Carbide's Moore Township polyethylene facility.

Depreciation at $32 million was up 28 per cent as the Moore Township plant operated for the full year and a new air separation facility at Fort Saskatchewan, Alberta, came on stream late in the year.

Return on sales at 7.8 per cent, return on invested capital at 10.9 per cent and return on common shareholders' equity at 19.5 per cent all gained in 1979, largely because of the Company's ability to improve selling prices from previously-depressed levels. These ratios had been in a declining trend in the 1975-78 period.

Although the 1979 common dividend at $0.925 per share represents only 17 per cent of earnings, the dividend payout over the last four years has averaged 30 per cent of earnings and quarterly dividends have been paid without interruption since shares were offered to the public in 1964. The book value per common share at year-end increased to $29.65 from 1978's $25.23.

The Year at a Glance

	Thousands		Per Common Share	
	1979	1978	1979	1978
Sales	$685,919	$528,207		
Net Income	57,814	20,089		
Net Income After Preferred Dividends	53,582	16,730	$ 5.35	$ 1.67
% of Sales	7.8	3.2		
% of Invested Capital*	10.9	3.6		
% of Common Shareholders' Equity*	19.5	6.7		
Dividends on Common Shares	9,251	9,000	0.92	0.90
Net Income Reinvested	44,331	7,730	4.43	0.77
Total Assets	745,286	672,668		
Construction Expenditures	30,074	46,270		
Depreciation and Amortization	32,032	24,992		
Common Shareholders' Equity (Book Value)	296,893	252,270	29.65	25.23

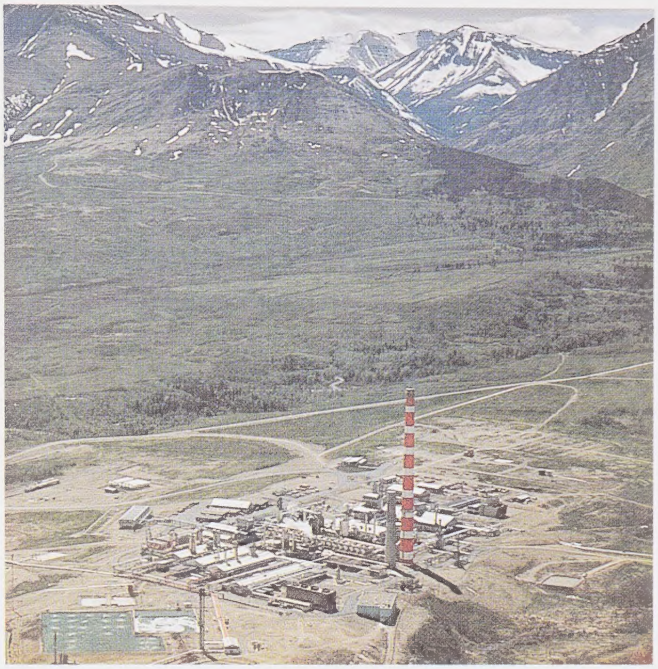
*Based on average of beginning and end of year figures. Invested Capital includes Short-Term Debt, Long-Term Debt and Shareholders' Equity.

Operations Review

Plastics and Chemicals

Plastics and Chemicals posted a 48 per cent sales increase in 1979, largely because Canadian hydrocarbon feedstock costs were competitive with world prices. The devalued Canadian dollar accentuated this cost advantage and also enabled Canadian producers to compete more effectively against imports in the domestic market where rapid market share expansion was achieved.

A sudden surge in world demand for polyethylene, the most widely used plastic material and the Company's leading single product, was triggered by the political turmoil in Iran which disrupted crude oil supplies and created a shortage of oil-derived petrochemicals on international markets. Union Carbide, having recently attained a greatly increased polyethylene production capability, was ideally positioned to respond to this renewed demand. The 300-million-pound-a-year low-density polyethylene output of the Montreal East petrochemical complex had been complemented in 1978 by an additional 400 million pounds of low- and high-density polyethylene annual capacity at the new Moore Township, Ontario, plant.



In natural gas plants across Canada, Union Carbide chemicals called alkanolamines remove gas impurities that are subsequently processed into sulphur.

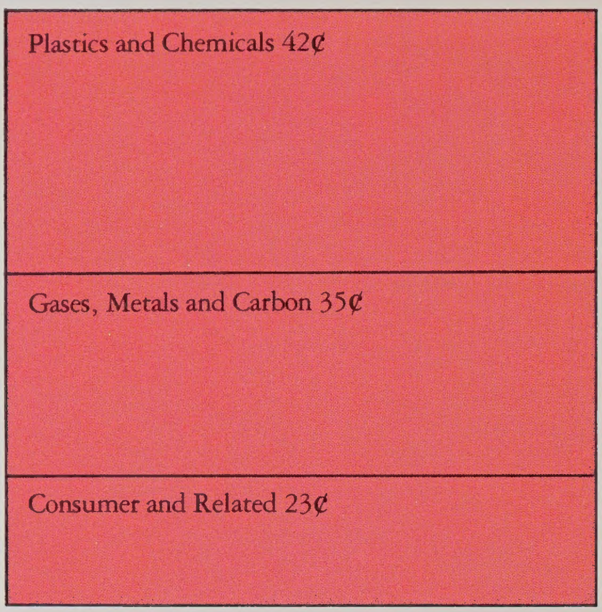
High-density polyethylene from Union Carbide goes into the manufacture of a wide range of products, including these tough, lightweight corrugated drainage pipes.

As a consequence, the physical volume of polyethylene export and domestic sales was expanded more than 25 per cent over the previous year's level, with more realistic product prices contributing to an even greater improvement in sales revenues.

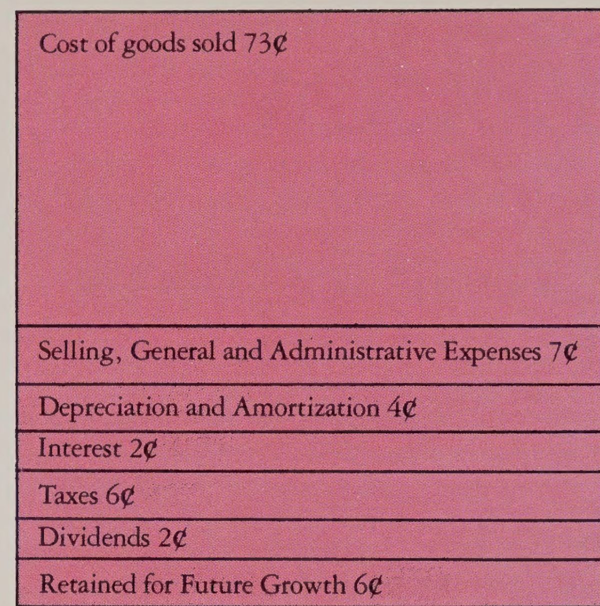
Plans were announced in August to expand the capacity of the Moore Township plant by more than 60 per cent to 650 million pounds in a phased, five-year program. The expansion, which includes utilization of Union Carbide's energy-efficient UNIPOL low-density polyethylene technology, represents an investment per pound of capacity of less than a third of the original capital cost of the facility.

Union Carbide manufactures and markets more than 300 chemical products for uses ranging from the sweetening

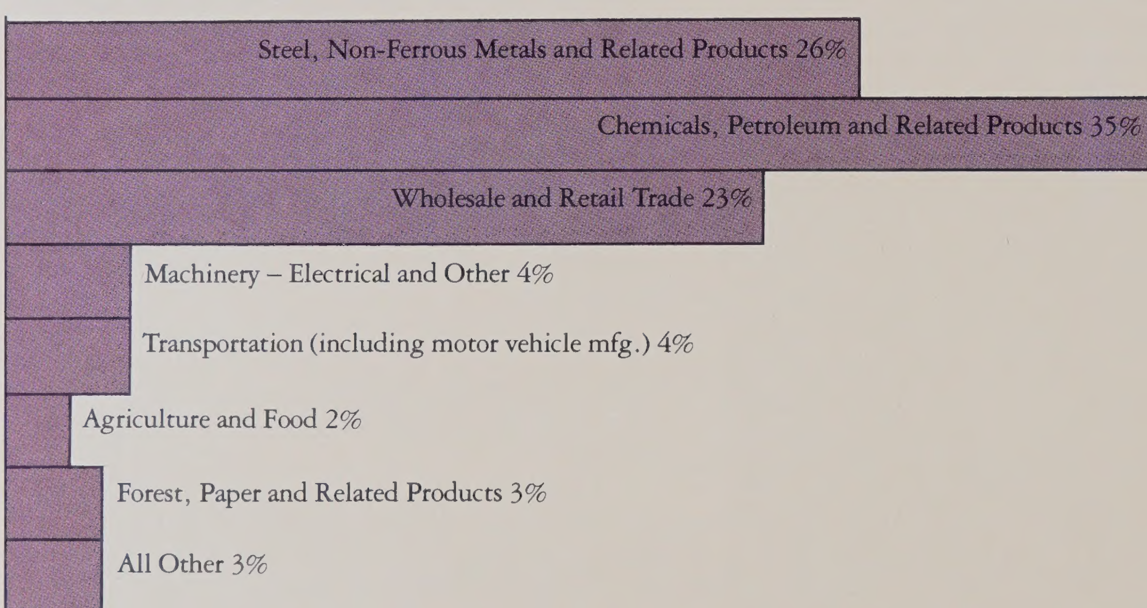
The sales dollar. . .



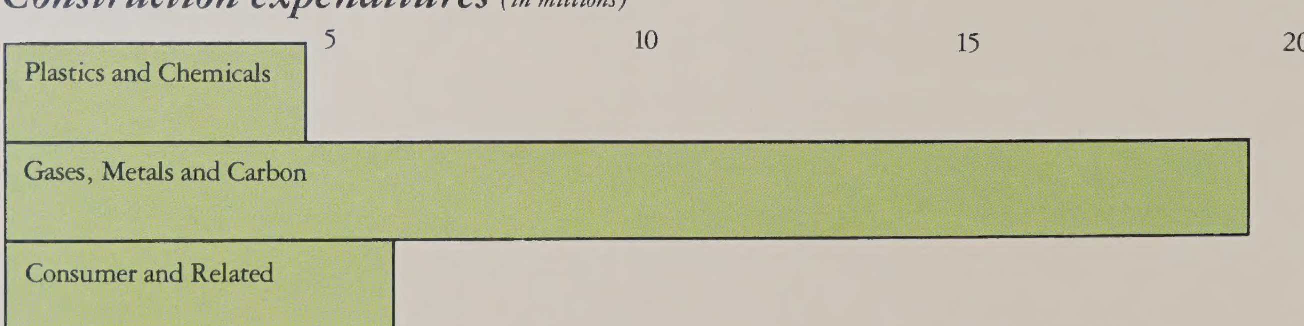
. . .where it went



Sales by markets *(per cent of sales)*



Construction expenditures *(in millions)*



of natural gas to the formulation of cosmetics. The strong performance in 1979 reflected an expanded Canadian demand for ethylene glycol during a year of tight North American supply.

Ethylene glycol, which is used in automotive anti-freeze and as the basic ingredient in producing polyester synthetic fibre, is the largest-volume chemical manufactured at Union Carbide's Montreal East facility. Production reached a new high during the year, enabling the Company to improve its substantial market share.

With the devalued Canadian dollar increasing the price of imported product, ethylene glycol prices appreciated from previously depressed levels. The new selling prices more than offset increased plant costs which were moderated by improved operating efficiencies and throughputs.

In July, the Company signed a letter of intent with la Société générale de financement du Québec and Gulf Canada Limited to form a limited partnership to consolidate and possibly expand the production of primary petrochemicals in Quebec. Subject to the completion of necessary agreements, the partnership, Petromont and Company Limited, will initially assume responsibility for Gulf Canada's ethylene plant at Varennes, Quebec, and a smaller Union Carbide Montreal East ethylene facility. Future expansion will depend on the availability of petroleum feedstocks, prevailing construction costs and world demand and prices for primary petrochemicals and their derivatives.

In 1980, modernization of the ethylene oxide and ethylene glycol units at Montreal East will be completed, further enhancing the operating efficiencies achieved in 1979. Rising oil prices, however, will create renewed cost pressures.

Gases, Metals and Carbon

The Gases, Metals and Carbon business is a major supplier to the steel industry which established a new production record in 1979. This contributed to the business' 13 per cent increase in sales.

Gases' sales increased markedly in line with higher operating rates and heavier investment spending by customer industries. This area of Union Carbide's operations produces atmospheric gases at 12 air separation plants across the country. It also manufactures and markets welding and cutting equipment and high-technology stream separation systems.

Gas volume grew significantly, particularly in the final quarter of the year when a new $23 million facility at Fort Saskatchewan, Alberta, went into operation. The largest plant of its type in Western Canada, it supplies oxygen and nitrogen in both gaseous and liquid form for industrial and medical applications and oil well servicing throughout the West.

Welding products achieved a significantly improved performance as a result of higher sales and cost savings resulting from the consolidation of operations at a welding products centre in Mississauga, Ontario.

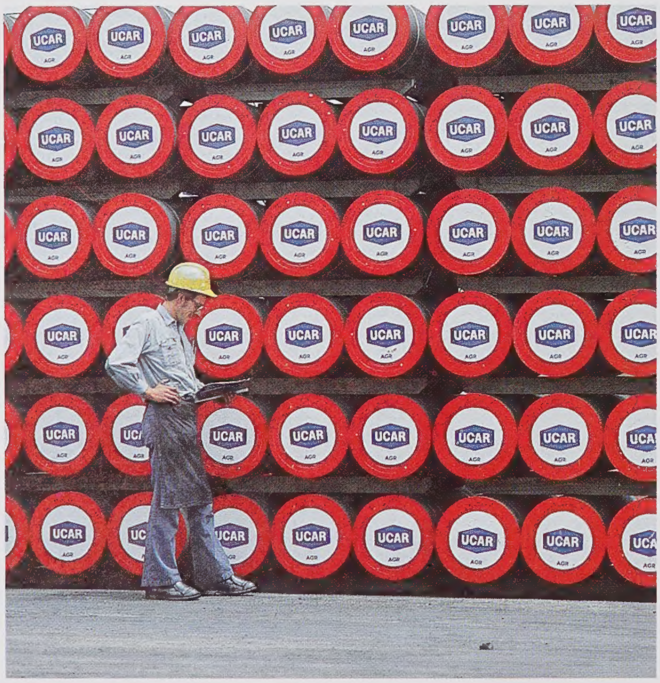
The sales of UNOX wastewater treatment systems to the City of Calgary and to a paper company in West Virginia contributed to the overall gains.

New air separation plant which became operational in 1979 at Fort Saskatchewan, Alberta.

Gases' product range will be broadened in 1980 with the construction of a carbon dioxide production facility at Montreal East. Carbon dioxide, which is used in the welding, food freezing and bottling industries, is a logical extension of Union Carbide's atmospheric gases business.

The demand for ferroalloys was exceptionally high during 1979 in line with the high steel, iron foundry and aluminum industry operating levels. However, an eight-month strike at the Beauharnois, Quebec, metals plant prevented the Company from responding fully to this demand.

The outcome was a requirement to purchase product in order to supply domestic customers and an inability to fulfil export opportunities, although modest sales gains were made in the domestic market. Overall, ferroalloy sales declined slightly from a year ago. Sales are expected to increase substantially in 1980 with continued strong domestic demand and the availability of product for export markets.



Graphite electrodes for use in electric arc furnaces await shipment to steel producers at the Welland, Ontario, carbon facility.

Carbon products, which serve the steel, ferroalloy and aluminum industries, contributed significantly to the business' sales improvement. The major product line is graphite electrodes, which are used in electric arc furnaces in the steel industry, and record electrode shipments were achieved in spite of a seven-week strike at the Welland, Ontario, facility.

Work started late in the year on a $9 million expansion of Welland graphite electrode production capacity. Scheduled for completion in early 1981, the expansion will meet the requirements of the Canadian electric steel industry which is expected to increase its production capacity by nearly 40 per cent in the next five years.

Consumer and Related

Union Carbide's consumer-oriented business experienced a successful year in 1979 with sales rising 28 per cent over the previous year's level.

Anti-freeze contributed significantly to the gains. Sales of PRESTONE II recorded a major increase, mirroring the expanding consumer preference for this long-established Union Carbide brand. A major advantage of PRESTONE II is its patented formulation of corrosion inhibitors which provides exceptional performance in today's high-temperature, high-stress engine conditions.

Film products enjoyed strong demand throughout the year at improved price levels. Similar strong sales growth is projected for 1980 and production will be higher with the completion in late 1979 of a film extrusion and embossing expansion at the Lindsay, Ontario, plant.

The ENERGIZER, Union Carbide's best-ever battery for performance and reliability, will be introduced to the marketplace in early 1980.

GLAD home products also recorded healthy sales gains despite new competition from low-priced generics in the plastic wrap and bag industry. Continued sales improvement is expected in 1980 when additional production capacity will be brought on stream at mid-year at the Orangeville, Ontario, facility.

Buoyed by the fast-growing popularity of electronic toys and games, sales of EVEREADY batteries advanced despite a highly-competitive retail market. Further sales gains are expected in the coming year with the introduction of a new high-performance ENERGIZER line.

Sales of casings for use in the production of processed meats declined marginally as a result of a drop in Canadian wiener and sausage consumption and lower export shipments. Improvement is expected in 1980.

Resources and Responsibilities

Employees

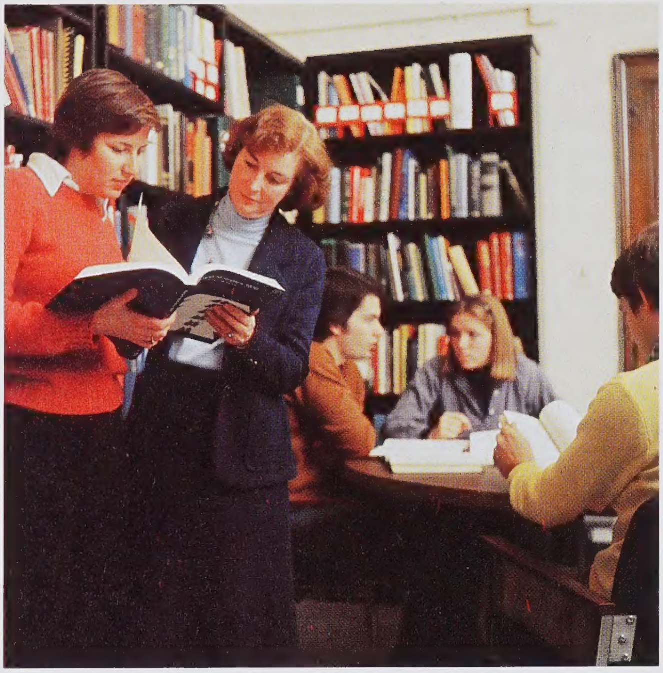
Union Carbide's work force is its main strength and a major reason for optimism in the future. Programs to further increase employee effectiveness and job satisfaction remain high priorities in human resource activities. Special emphasis has been placed on the identification of high potential and innovative employees to provide them with opportunities to maximize their abilities.

The "pay for performance" program, which previously applied only to management personnel, is in the process of being broadened to include all salaried support staff.

The dental assistance plan was upgraded in 1979 to provide benefits in accordance with current provincial fee schedules and a pre-retirement counselling program was introduced to assist employees in preparing for their retirement.

A comprehensive program of occupational health has been organized. It includes industrial hygiene monitoring at each plant location.

A Montreal panorama is the talking point for two of 50 anglophone and francophone children of Union Carbide employees who took part in Company-assisted exchange visits during the year aimed at improving their understanding of different Canadian lifestyles.



A donation from Union Carbide was used to establish a resource centre for students doing post-graduate work in occupational and environmental health at the University of Toronto.

The Environment

Protection of the environment in and around Union Carbide's plants is an on-going program that has developed in line with new technology, government regulations and Company standards.

Advanced equipment and processes were installed at several locations. As with all new Union Carbide plants, the design of the new Fort Saskatchewan air separation facility incorporated the best available environmental control technology.

Initiatives in environmental control can sometimes result in savings. Certain wastes are now being recycled into production processes.

In 1979, the Company also adopted a material safety data program in order to supply customers and others with more detailed, safety and health-related information about its products.

Energy

Union Carbide's major manufacturing operations require a secure supply of energy and hydrocarbon feedstocks at costs that are competitive with those of other domestic and foreign producers. Consequently, continued political unrest in the Middle East, coupled with problems in reaching a federal-provincial agreement on the pricing and supply of hydrocarbon resources, cause special concern.

The Company continued an aggressive communication program to make governments and others aware of the economic effects of energy policy decisions, placing particular emphasis on the energy price inequities that currently exist in relation to other trading nations and between regions of Canada.

Through its leadership role in the Voluntary Industrial Energy Conservation Program, Union Carbide shared specialized expertise with other companies and assisted in strengthening the national effort to improve the energy efficiency of Canadian industry.

The Company's own energy conservation program yielded savings 14 per cent above the national industrial average.

An attractive, landscaped area, formerly a parking lot, is the second stage of the development of a greenbelt buffer area around the Welland plant.

Consolidated Statement of Income and Retained Earnings

	(thousands of dollars) Year Ended December 31 1979	1978
Sales	$685,919	$528,207
Cost of Goods Sold	500,238	420,990
Selling, General and Administrative Expenses	46,790	39,608
Depreciation and Amortization	32,032	24,992
Interest on Long-Term Debt	15,712	15,898
	594,772	501,488
	91,147	26,719
Investment Income	3,579	2,601
Gain on Disposal of Capital Assets	355	240
	3,934	2,841
Income Before Provision for Income Taxes	95,081	29,560
Provision for Income Taxes	38,806	10,57[illegible]
	56,275	18,9[illegible]
Share of Income of Companies carried at Equity	1,539	1,1[illegible]
Net Income	57,814	20[illegible]
Retained Earnings, January 1	192,670	184[illegible]
	250,484	205[illegible]
Dividends Paid – Preferred	4,232	3[illegible]
– Common	9,251	9[illegible]
	13,483	12,3[illegible]
Retained Earnings, December 31	$237,001	$192[illegible]
Net Income per Common Share	$5.35	$1.6[illegible]

Management Report

Union Carbide Canada Limited's Annual Report and the accompanying financial statements are prepared by Management and have been approved by the Board of Directors. The financial statements have been prepared in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year. The principles used were those judged by Management to be the most appropriate in the circumstances. Management acknowledges responsibility for the fairness, integrity and objectivity of all financial information contained in the Annual Report including the financial statements. All information in the Annual Report is consistent with the financial statements included therein.

UNION CARBIDE CANADA LIMITED
and consolidated subsidiaries

The notes on pages 12, 13, 14 and 15 are an integral part of this statement.

Consolidated Statement of Changes in Financial Position

	(thousands of dollars) Year Ended December 31 1979	1978
Source of Funds		
Operations		
Net Income	$ 57,814	$ 20,089
Items not Affecting Working Capital		
Depreciation and Amortization	32,032	24,992
Transfer to Deferred Credits	32,863	10,437
Share of Unremitted Income of Companies carried at Equity	82	(73)
Gain on Disposal of Capital Assets	(355)	(240)
Working Capital Provided from Operations	122,436	55,205
Net Proceeds from Common Share Issue	292	–
Proceeds on Disposal of Capital Assets	870	621
Other – Net	(1,820)	544
	121,778	56,370
Application of Funds		
Construction Expenditures	30,074	46,270
Dividends Paid	13,483	12,359
Increase in Investments	1,985	6,620
Reduction of Long-Term Debt	2,250	2,250
Acquisition of Goodwill	271	174
	48,063	67,673
Increase (Decrease) in Working Capital	73,715	(11,303)
Working Capital at Beginning of Year	118,780	130,083
Working Capital at End of Year	$192,495	$118,780

	1979	1978
Changes in Components of Working Capital		
Cash and Marketable Securities	$ 25,444	$ (2,698)
Receivables	28,910	17,677
Inventories	16,769	11,120
Prepaid Expenses	(26)	18
Payables	(5,063)	(30,539)
Notes Payable to Affiliates	7,831	(7,831)
Current Portion of Long-Term Debt	(150)	950
	$ 73,715	$ (11,303)

UNION CARBIDE CANADA LIMITED
and consolidated subsidiaries

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Consolidated Balance Sheet

	(thousands of dollars) December 31, 1979	December 31, 1978
Assets		
Current Assets		
Cash and Marketable Securities	$ 40,214	$ 14,770
Receivables	117,936	89,026
Inventories	129,159	112,390
Prepaid Expenses	5,181	5,207
Total Current Assets	292,490	221,393
Fixed Assets	390,234	392,304
Investments	57,285	55,382
Other Assets	5,277	3,589
	$745,286	$672,668
Liabilities		
Current Liabilities		
Payables	$ 99,245	$ 94,182
Notes Payable to Affiliates	–	7,831
Current Portion of Long-Term Debt	750	600
Total Current Liabilities	99,995	102,613
Deferred Credits	135,148	102,285
Long-Term Debt	153,250	155,500
	388,393	360,398
Shareholders' Equity		
Capital Stock		
Authorized		
6,000,000 Preferred Shares		
Unlimited Common Shares		
Issued		
2,400,000 Preferred Shares	60,000	60,000
10,013,115 Common Shares	59,892	59,600
Retained Earnings	237,001	192,670
	356,893	312,270
	$745,286	$672,668

Signed on behalf of the Board
J. S. Dewar, Director
J. de Billy, Director

UNION CARBIDE CANADA LIMITED
and consolidated subsidiaries

The notes on pages 12, 13, 14 and 15 are an integral part of this statement.

Auditors' Report

To the Shareholders of Union Carbide Canada Limited

We have examined the consolidated balance sheet of Union Carbide Canada Limited as at December 31, 1979 and the consolidated statements of income and retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the company as at December 31, 1979 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Hurdman and Cranstoun

Chartered Accountants
Toronto, Canada
January 24, 1980

Notes to the 1979 Financial Statements

		(thousands of dollars) December 31, 1979	December 31, 1978
1. Supplementary Balance Sheet Detail			
Cash and Marketable Securities			
	Cash and Deposits	$ 32,761	$ 5,814
	Short-Term Securities	7,453	8,956
		40,214	14,770
Receivables	Trade	91,651	75,623
	Affiliated Companies – Trade	18,402	7,752
	Miscellaneous	7,883	5,651
		117,936	89,026
Inventories	Raw Materials and Supplies	28,590	25,784
	Work in Process	38,714	36,545
	Finished Goods	61,855	50,061
		129,159	112,390
Fixed Assets	Land	7,967	7,762
	Buildings	90,733	87,253
	Machinery and Equipment	514,557	493,729
	Gross Fixed Assets	613,257	588,744
	Accumulated Depreciation	223,023	196,440
	Net Fixed Assets	390,234	392,304
Investments	Companies carried at Equity in Net Assets	6,180	5,870
	Petrosar Limited	47,149	44,915
	Other Investments	3,956	4,597
		57,285	55,382
Other Assets	Unamortized Commissions and Debt Discount	2,193	2,544
	Deferred Charges	2,324	360
	Unamortized Goodwill	760	685
		5,277	3,589
Payables	Trade Payables & Accrued Liabilities	68,646	57,827
	Affiliated Companies – Trade	23,198	34,603
	Income and Other Taxes Payable	7,401	1,752
		99,245	94,182
Deferred Credits	Income Taxes	127,896	95,311
	Investment Tax Credit	7,252	6,974
		135,148	102,285
Long-Term Debt	a) 8³/₈% Unsecured Debentures maturing May 1, 1992. Mandatory sinking fund payments of $750,000 annually to May 1, 1991.	22,750	23,500

	1979	1978
b) $10^{3}/_{4}$% Unsecured Debentures maturing June 15, 1995. Mandatory sinking fund payments of $3,000,000 annually commencing June 15, 1981.	75,000	75,000
c) $9^{1}/_{4}$% Unsecured Notes maturing May 1, 1982.	30,000	30,000
d) $9^{3}/_{4}$% Unsecured Debentures maturing May 1, 1986. Mandatory sinking fund payments of $1,500,000 annually to May 1, 1985.	25,500	27,000
	153,250	155,500

Maturities and sinking fund requirements for the years 1980 through 1984 are $750,000, $5,250,000, $35,250,000, $5,250,000, and $5,250,000 respectively.

Capital Stock

1979	1978
Authorized	
6,000,000 preferred shares issuable in series	6,000,000 preferred shares issuable in series with a par value for each series to be fixed by the directors at not less than $10 nor more than $50 per share but not exceeding in the aggregate $150,000,000.
Unlimited common shares	12,500,000 common shares without nominal or par value.

(thousands of dollars)	1979	1978
Issued		
2,400,000 preferred shares series A	$ 60,000	$ 60,000
10,013,115 common shares (1978 – 10,000,000)	59,892	59,600
	$119,892	$119,600

The 2,400,000 preferred shares series A are redeemable at the option of the Corporation after, but not before August 31, 1980 and are retractable at the option of the holder on June 1, 1987, in each case at a price of $25 per share plus any dividends accrued and unpaid. They have a cumulative preferential floating rate dividend which is adjusted and payable quarterly at a rate which is applied to $25 and is equal to the sum of $1^{1}/_{4}$% plus $^{1}/_{2}$ of commercial bank prime interest rate.

In 1979, 13,115 common shares were issued for $291,898 to the trustee holding the shares for senior management employees participating in long term stock purchase plan under which the Corporation made interest-free loans to such employees of the full purchase price of the shares.

The Corporation was continued under the Canada Business Corporations Act effective April 27, 1979.

2. Summary of Accounting Policies

Principles of Consolidation

The consolidated financial statements include the assets, liabilities, revenues and expenses of significant subsidiaries. Investments carried at equity in net assets include companies owned 25 to 50 per cent, as well as some companies owned more than 50 per cent, but which are not material in size. The Corporation's share of earnings of companies carried at equity is included in the income statement. Goodwill is amortized over five years. Other investments (including Petrosar Limited referred to in Note 3) are carried at cost. The following is a financial summary of those companies carried at equity:

	(thousands of dollars) December 31, 1979	December 31, 1978
Total Assets	$42,050	$35,555
Less: Total Liabilities	28,106	22,238
Net Assets	13,944	13,317
UCCL Equity in Net Assets	6,180	5,870
UCCL Equity in Net Income	1,539	1,105

Short-Term Securities

Short-Term securities are carried at cost, which approximates market.

Inventories

Inventory values, which do not include depreciation of fixed assets, are stated at cost and net realizable value, whichever is lower. Cost is determined on the average cost method.

Fixed Assets and Depreciation

The Corporation carries fixed assets at cost. Expenditures for replacements are capitalized and the replaced items are retired. Maintenance and repairs are charged to operations. The Corporation uses straight-line depreciation for financial accounting purposes. Rates are based on estimates of useful life for each group of depreciable fixed assets. Depreciation is not charged on new assets until they become operative. Gain or loss on disposal of fixed assets is calculated on the remaining net book value at the time of disposal and is reflected in income.

Research and Development

Research and development costs are charged to operations as incurred.

Income Taxes

The Corporation uses the deferral method of tax allocation to provide for income taxes. The time in which transactions affect taxable income frequently differs from the time in which they enter into the determination of income in the financial statements. The cumulative differences between taxes provided and taxes payable are shown under "Deferred Credits" on the Consolidated Balance Sheet. Investment tax credits are amortized over a ten-year period with the annual amortized amount accounted for as a reduction in the provision for income taxes.

Employee Retirement Program

The actuarial liability for past service costs under the retirement program, estimated to be $23,633,000 as at January 1, 1979 will be amortized over not more than fifteen years, in accordance with current pension legislation.

Translation of Foreign Currencies

Foreign currencies are translated into Canadian dollars as follows:

a) Cash, current receivables and payables at year-end exchange rates.

b) All other assets and liabilities as well as income and expenses at rates prevailing at the month-end prior to the transaction.

Realized and unrealized exchange gains and losses are credited or charged to operations.

3. Commitments

a) The Corporation has a 20% equity interest in Petrosar Limited with which the Corporation has entered into long term take or pay contracts for the purchase of ethylene and atmospheric residual oil. The atmospheric residual oil contract was entered into by the Corporation as accommodation purchaser for Union Carbide Corporation which has undertaken to protect the Corporation from all losses which may be incurred thereunder. The Corporation is committed to advance 30.4% of any funds necessary to make up any deficiency in meeting certain of the financial obligations of Petrosar Limited. During the year, the Corporation subscribed for $2,233,700 of Class B preference shares of Petrosar Limited, which rank in all respects behind the Class A preference shares held by Petrosar's bankers. The Class A preference shares carry the right to a cumulative preferential floating rate dividend and are retractable over a period expiring December 31, 1987. The Corporation is committed to purchase the right to such divi-

dend or to purchase the said shares from the banks to the extent of 30.4% thereof if Petrosar should default in meeting certain conditions. Union Carbide Corporation has agreed to advance or cause to be advanced to the Corporation an amount equal to 33.2% of any funds required to be paid pursuant to the aforementioned financial commitments of the Corporation.

b) The Corporation, Gulf Canada Limited and Société générale de financement du Québec have executed a statement of intention dated July 4, 1979 providing for the formation of a consortium for the production and marketing of basic petrochemicals. Subject to the completion of satisfactory contracts regarding the formation of the consortium and its operation, it is contemplated that, not earlier than March 31, 1980, the Corporation would sell its existing ethylene and propylene producing assets located at Montreal East to the consortium in return for a 33% interest therein and would enter into a long-term contract to purchase from the consortium feedstocks for its Montreal East production facilities.

c) Commitments as at December 31, 1979 for capital expenditures are approximately $12.5 million.

d) Commitments under non-cancellable leases with a term extending for one year or more will require the following future payments:

	(thousands)
1980	$ 3,335
1981	2,734
1982	2,261
1983	1,922
1984	1,708
Thereafter	4,289
	$16,249

4. Segmented Information

The Corporation has three major business classes or segments, as determined by the Board of Directors and recorded in the minutes of a meeting thereof: (1) Plastics and Chemicals, (2) Gases, Metals and Carbon, and (3) Consumer and Related. These segments were determined based upon the similarity or close relationship in each segment of certain factors, including the following: nature of markets, common production and distribution facilities, and type of raw materials used. Inter-segment sales are accounted for at prices comparable to open market prices for similar products and services. The following is a summary of financial information for each segment:

(thousands of dollars)

	Plastics and Chemicals	Gases, Metals and Carbon	Consumer and Related	Corporate	Consolidated
Sales to customers	$290,967	$236,911	$158,041		$685,919
Inter-segment Sales	53,980	2,848	288		
Total Revenue	344,947	239,759	158,329		
Segment Operating Profit	71,526	31,996	18,432		121,954
General Corporate Expense					(11,161)
Interest Expense					(15,712)
Equity Companies Income					1,539
Income Taxes					(38,806)
Net Income					57,814
Identifiable Assets	354,665	235,311	69,209	86,101	745,286
Construction Expenditures	4,581	18,969	6,264	260	30,074
Depreciation and Amortization	15,920	12,416	2,646	1,050	32,032
Export Sales					76,204

Five Year Summary

	1979	1978	1977	1976	1975
Sales					
Plastics and Chemicals	$290,967	$195,967	$124,771	$114,593	$ 93,256
Gases, Metals and Carbon	236,911	209,015	178,071	183,969	184,228
Consumer and Related	158,041	123,225	103,694	95,173	100,688
	685,919	528,207	406,536	393,735	378,172
Net Income	57,814	20,089	20,500	32,121	43,136
Net Income After Preferred Dividends	53,582	16,730	19,428	32,121	43,136
% of Sales	7.8	3.2	4.8	8.2	11.4
% of Invested Capital*	10.9	3.6	4.7	9.1	16.7
% of Common Shareholders' Equity*	19.5	6.7	8.1	14.5	22.3
Per Common Share	5.35	1.67	1.94	3.21	4.31
Dividends on Common Shares	9,251	9,000	9,000	8,875	8,500
% of Net Income After Preferred Dividends	17.3	53.8	46.3	27.6	19.7
Per Common Share	0.92	0.90	0.90	0.89	0.85
Net Income Reinvested	44,331	7,730	10,696	23,246	34,636
Per Common Share	4.43	0.77	1.07	2.32	3.46
Total Assets	745,286	672,668	619,331	546,064	431,852
Working Capital	192,495	118,780	130,083	136,289	136,439
Construction Expenditures	30,074	46,270	82,299	110,207	74,784
Depreciation and Amortization	32,032	24,992	18,104	17,012	14,811
Common Shareholders' Equity	296,893	252,270	244,540	233,844	210,598
Per Common Share	29.65	25.23	24.45	23.38	21.06
Number of Common Shareholders	4,227	4,900	5,200	5,500	5,900
Market Price Range: High	27.25	19.12	19.25	24.00	22.00
Low	17.50	16.62	16.25	17.62	14.00
Employee Data					
Wages and Salaries	94,566	85,880	80,621	75,168	62,845
Average Number of Employees	4,791	4,704	4,695	4,819	4,858

(dollars in thousands – except per share figures)

*Based on average of beginning and end of year figures.
Invested Capital includes short-term debt, long-term debt and Shareholders' Equity.

Plants	*Products*
Plastics and Chemicals	
Moore Township, Ontario/Montreal East, Quebec	UNION CARBIDE Low- and High-Density Polyethylene Resins/ Co-Polymers/Vulcanizable and Semi-Conductive Compounds/ Polyethylene Powders/Cellular Polyethylene/Polysulfone Resins
Montreal East, Quebec	UNION CARBIDE Organic Chemicals, including Ethylene Oxide, Alkanolamines, Glycols and Glycol Ethers/Silicone Chemicals and Oils/Urethane Foam Intermediates/UCAR Solution Vinyl Resins/ CELLOSIZE/CARBOWAX Polyethylene Glycols/UCON Lubricants/ UCAR Latices/Propylene
Gases, Metals and Carbon	
Vancouver and Vernon, British Columbia/Calgary, Edmonton and Fort Saskatchewan, Alberta/ Saskatoon, Saskatchewan/Selkirk and Transcona, Manitoba/London, Mississauga, Oakville, Ottawa, Sarnia, Sault Ste. Marie and Thunder Bay, Ontario/Arvida, Lauzon, Montreal, Montreal East, Noranda, Sept-Iles and Tracy, Quebec/Saint John, New Brunswick/ Halifax, Nova Scotia	LINDE Oxygen, Nitrogen, Hydrogen, Argon, Helium, Carbon Dioxide and Rare Gases/Specialty Gas Mixtures/Fumigants and Sterilants/Calcium Carbide and Acetylene/Gas and Electric Welding, Cutting, Forming and Heat-Treating Apparatus/Welding Rods, Wire and Electrodes/Power Sources/Heat Exchangers/Steel-Conditioning Machines/Rock-Piercing and Shaping Equipment/Medical Gases, Inhalation and Suction Therapy Equipment/Distillation Trays/ Cryogenic Equipment/Food Freezing Equipment/Molecular Sieves/ UNOX System for secondary wastewater treatment
Beauharnois and Chicoutimi, Quebec	Ferroalloys, Alloying Metals, Pure Metals and Metal Compounds produced from the elements Boron, Calcium, Chromium, Manganese, Silicon, Titanium, Tungsten, Vanadium and Zirconium
Toronto and Welland, Ontario	Electric Arc Furnace Electrodes/Cathode Blocks/Electrolytic Cell Anodes/Furnace Linings/Electric Motor and Generator Brushes/ Theatre Projector Carbons/Carbon and Graphite Products for chemical, electrical, mechanical and metallurgical applications
Consumer and Related	
Lindsay, Orangeville, Toronto and Walkerton, Ontario/ Cowansville, Quebec	ENERGIZER and EVEREADY Batteries, including Alkaline Manganese, Carbon Zinc, Silver Oxide, Mercuric Oxide, Nickel Cadmium and Lithium/EVEREADY Flashlights, Lanterns and Bulbs/ GLAD Food Wrap, Bags and Garbage Bags/GLAD Cupboard Unit/ PRESTONE II Anti-Freeze and Summer Coolant/PRESTONE Car Care Products/Polyethylene Film/VISKING Cellulose Food Casings/ VISTEN and PERFLEX S Specialty Films

Union Carbide Canada Limited

Head Office	123 Eglinton Avenue East Toronto, Canada M4P 1J3
Stock Transfer Agent and Registrar	Canada Permanent Trust Company Halifax, Montreal, Toronto, Winnipeg and Vancouver
Stock Exchange Listings	Montreal and Toronto
Auditors	Hurdman and Cranstoun Toronto